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1 THE COURT: All right, let's proceed.

2 MS. DENNISTON: Thank you, Your Honor.

3 BY MS. DENNISTON:

4 Q. With regard to the Liberty report, is Northwestern under an  
5 obligation to accept all recommendations made by Liberty under  
6 the stipulation (indiscern.)?

7 A. The stipulation does not require us to accept and implement  
8 all the recommendations. It requires that we file a report  
9 with the Commission as to our view or response to those, and  
10 those steps or actions that are agreed between ourselves and  
11 the Commission are to be implemented.

12 Q. And do you anticipate any discussion with the Commission as  
13 to the scope of what steps will need to be --

14 A. I would expect yes, they're going to want us to explain for  
15 each of the 21 recommendations if we're not adopting it as  
16 proposed why not and what we do plan to do to address the issue  
17 that was raised.

18 Q. And would it be fair to characterize that as an ongoing  
19 discussion?

20 A. Yes, absolutely.

21 Q. Let's turn to the Montana Consumer Counsel. Are you  
22 familiar with the Montana Consumer Counsel?

23 A. Yes.

24 Q. And can you tell the Court what the Montana Consumer  
25 Counsel is?

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1 A. It's an office created by the Montana Constitution to  
2 represent consumer interests in matters pending before the  
3 Public Service Commission, so they are a automatic intervener  
4 into all rate cases and any other costs or other proceedings  
5 that go before that Commission.

6 Q. And how does the -- and what kind of relationship does  
7 Northwestern have with the Montana Consumer Counsel?

8 A. Well, the relationship is, you know, by definition an  
9 adversary in the sense that they come in, and like an advocate  
10 for any party, they're going to recommend the position in the  
11 interest of their client in the most extreme and opposite of  
12 that of the company.

13 Q. And has the Montana Consumer Counsel raised any issues with  
14 Northwestern regarding over-earning (indiscern.)?

15 A. Yes, the Consumer Counsel, while this case had been pending  
16 and preceding the stipulation, has made a number of public  
17 statements where they believe the company may be over-earning.

18 Q. And what is over-earning?

19 A. Over-earning simply means that the rate of return being  
20 received exceeds what has been authorized by the Commission.

21 Q. And what happens if there is, in fact, over-earning?

22 A. If the Commission were to find over-earning in a rate  
23 proceeding, it would reduce our rates.

24 Q. And in connection with the rate review provided for under  
25 the stipulation, would the Consumer Counsel have an opportunity

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1 to review that case?

2 A. Yes they will.

3 Q. And what will be the risk to Northwestern if they did?

4 A. The risk to us if they were successful in establishing  
5 over-earning is that our rates beginning in 2007 would be  
6 reduced.

7 Q. Okay, so is it accurate to say that while there's no change  
8 in the rates until 2007, there's a risk that the rates could go  
9 down?

10 A. Yes.

11 Q. What can you tell us about the various trackers that  
12 Northwestern has in place?

13 A. Well, the tracker accounts are set up to recoup costs that  
14 are largely outside of the control of the company. The biggest  
15 example is the gas and electric commodity costs. As I said, we  
16 procure that on behalf of customers who have not chosen to buy  
17 from someone else. We make no margin or profit whatsoever on  
18 that, but we try to recover our costs. These tracking  
19 mechanisms are designed to make sure that we recover our costs  
20 without -- not more and not less. The other example provided  
21 for in state law that we do not have in place is a property tax  
22 tracker. Property taxes are, other than energy, probably our  
23 next to the largest operating costs. In fact they -- in  
24 Montana, our property tax exceeds our labor expenses out there.  
25 And so the legislature authorized the Commission to establish

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1 tracking accounts for property taxes, but we have not yet put  
2 that in place in Montana.

3 Q. Well, as to Montana, who or what makes the determination as  
4 to whether a tracker can be put in place?

5 A. The Commission will make that determination. We will  
6 petition the Commission requesting a property tax tracker, and  
7 they will determine whether or not they will authorize it.

8 Q. And that again, is that an ongoing discussion between  
9 Northwestern and the Commission?

10 A. It will be. We have not yet filed our petition for it. We  
11 plan to do that this fall.

12 Q. Let's turn now to another topic, the qualified facilities.  
13 Are you familiar with the qualified facilities?

14 A. Yes.

15 Q. Can you tell the Court what a qualified facility is?

16 A. It's a creation of -- under the Public Utility Regulatory  
17 Policies Act of 1978 where if generators met certain criteria  
18 as to the type of fuel or type of generator and ownership  
19 criteria, they were exempt from cost of service regulation by  
20 the Federal Energy Regulatory Commission. And instead of  
21 selling at rate regulated prices, there's mandatory purchase  
22 obligation of the resident utility to buy the power from them  
23 at what's called avoided cost rates. The Federal statute sets  
24 up the obligation to purchase. The avoided costs were left for  
25 the state commissions to determine what that is. And simply

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1 stated, it's whatever that utility's alternatives would be;  
2 either to build or buy from somebody else at the time. Most of  
3 these QF's were created following 1978 and the early to mid-  
4 80s, signed up for very long-term contracts. The longest run  
5 to the year 2028. Montana Power had, at the time we acquired  
6 them, about 15 of those contracts. There's 13 of them  
7 remaining.

8 Q. Presently?

9 A. That's correct.

10 Q. And what is the impact of the QF contracts on  
11 Northwestern's operation?

12 A. Well, the impact is over that long period of time we're  
13 going to have a negative cash flow impact or cash flow deficit  
14 because when we bought Montana Power, then pending before the  
15 Commission was a proceeding to determine which costs associated  
16 with those would be allowed to be recovered in rates. And the  
17 so-called in-market portion, that is the portion that is equal  
18 to the existing market, is recovered in our base default supply  
19 costs. And then the Commission authorized what was called a  
20 competitive transition charge, or CTC. It's a fixed per-unit  
21 charge that goes out through 2028. And then any costs above  
22 that are not recovered in rates.

23 Q. So is that a negative -- so to sum up --

24 A. Yes.

25 Q. -- it would be a negative to the operation?

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1 A. It is a negative to operations that increases over time.

2 Q. And has Northwestern made any adjustments on its books to  
3 address this liability?

4 A. Yes. When we acquired the Montana Power Company, we did a  
5 forecast or assessment of what the contract costs would be over  
6 the remaining life of those contracts, as well as the cost  
7 recovery. We took the difference between the two and  
8 calculated a net present value number and booked that as a  
9 liability on our books that is about \$140 million.

10 Q. Does Northwestern have any opportunity not to continue to  
11 operate under these contracts?

12 A. No, we cannot avoid these contracts. We could and we hope  
13 to try to re-negotiate some terms, but we cannot avoid the  
14 contract.

15 Q. And were you involved in any analysis as to whether the QF  
16 contracts should be rejected under the Bankruptcy Code?

17 A. Yes, I was.

18 Q. And what was the reason that the contracts were not  
19 rejected?

20 A. We did an assessment of what the claim might be, the  
21 contract rejection claim. And I don't recall what the gross  
22 number was, but on the net present value basis the claim was  
23 going to be in excess of \$400 million; if I recall correctly,  
24 450 to \$460 million that they would be entitled to claim for  
25 the loss of the value of their contract. We looked then at the

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1 savings that might be enjoyed by the company for no longer  
2 having the burden of paying these contracts. And the  
3 difficulty we ran into was that because we have the CTC QF, as  
4 it's called, it's likely that a large portion of those savings  
5 would be returned to consumers through some kind of a rebate.  
6 And so the net of the two was that the savings that we felt  
7 were present did not exceed the claim that these people would  
8 make, and so that Northwestern was not better off rejecting  
9 those contracts. In fact, we felt that the estate was better  
10 off assuming them and have filed a Notice of Intent to assume  
11 those contracts.

12 Q. Thank you. Let's turn now to the collective bargaining  
13 agreements. If you'll recall in the May time period when we  
14 filed the initial disclosure there was a contract that was up  
15 for renewal. Can you tell us what has happened with the IBEW  
16 44 Collective Bargaining Agreement?

17 A. Yes. We've reached an agreement with the union leadership  
18 for IBEW Local 44. They are the electrical workers in Montana,  
19 the linemen and other electrical workers. It's the largest  
20 union that we have. We've reached a 4-year agreement with them  
21 that has been ratified by the membership. In fact, went into  
22 effect retroactive to May 1st. It is currently awaiting  
23 approval by the national office of IBEW, which we've not  
24 received, but we have put that agreement into effect.

25 Q. And what is the financial impact, if any, on the company

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1 under the new agreement?

2 A. Well, let me talk about wages, they're really the economic  
3 factors. There were no wage increases during 2004. There will  
4 be a 2% retroactive lump sum payment in January of '05 and then  
5 intermittent wage increases over the balance of the term. The  
6 aggregate total of the wage increases are 13% over the 4-year  
7 term, and then there were also some other work rule changes and  
8 improvements that were made in that contract.

9 Q. With regard to the financial changes, the increase in  
10 wages, have those numbers been included in the Debtor's  
11 projections?

12 A. Yes they have.

13 Q. Let's turn now to the Debtor's 5-year business plan. Were  
14 you -- Mr. Hanson, can you tell us what is the 5-year business  
15 plan?

16 A. The 5-year plan is actually a tool that the company's had  
17 in place for some time for longer-term strategic planning, if  
18 you will. And what we do is we put together a financial model  
19 for the current and 5-year's forecast, 5-years pending.

20 Q. And did you update that model in connection with this  
21 bankruptcy proceeding?

22 A. Yes, we did.

23 Q. And were you involved in that process?

24 A. Yes, I was.

25 Q. What was your involvement in the development or the

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1 revisions or the refinement of the 5-year business plan?

2 A. My involvement was to take all of the underlying

3 assumptions from revenue, margin, volume growth, operating

4 expenses, administrative expenses that come from the operations

5 side and cash flows related to the utility operations, review

6 those, confer with my direct reports and other people in

7 operations to make sure that we felt those assumptions were

8 reasonable and achievable. As the Chief Operating Officer, I'm

9 very interested in making sure we have a realistic plan that we

10 can achieve.

11 Q. And with regard to that, your obligations under that --

12 development of that plan, did you also communicate with anyone

13 else on the senior management team?

14 A. Well, certainly. We had a series of meetings, you know,

15 Bill Austin joined the company in April, and in the fall,

16 somewhere around, you know, following filing in September

17 through the November timeframe we had weekly cash meetings, we

18 had weekly management meetings of Gary Dook, Bill and I, the

19 other senior leadership, sometimes special meetings to talk

20 about just the subject of the 5-year plan and that -- what we

21 had referred to as the "top-down" view of that plan. But at

22 the same time, I was working with people in my own organization

23 that do load forecasting or, you know, customer care, or the

24 operations folks to see if the budget assumptions were

25 accurate, the load and volume forecasts were accurate, and so

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1 on. And so that was what we referred to as a "bottoms-up." So  
2 we were simultaneously doing a top-down and bottoms-up review  
3 over that September to November time period.

4 Q. Okay, what can you tell us about the 5-year business plan?

5 A. Well, the significant changes in the plan, starting with  
6 the balance sheet, of course, it is our plan to retire 1.3  
7 billion of unsecured debt with the issuance of new equity that  
8 we've valued at 710 million. We also believe we'll have enough  
9 cash to pay down a portion of our existing secured debt and  
10 have approximately 800 million of secured debt coming out of  
11 bankruptcy or shortly thereafter, after we complete that. And  
12 then we're planning to refinance a portion of the secured debt  
13 to move out and smooth out the maturity dates.

14 Q. And with regard to the exit financing and the things that  
15 you've just described, who at the company was responsible for  
16 taking the lead on that?

17 A. On the exit financing, that would be Brian Byrd in the  
18 treasury department.

19 Q. Let's look at the operational side of the business plan.  
20 What can you tell us about the Debtor's assumptions on volume  
21 and revenue growth?

22 A. We -- when we began looking at this particular assumption,  
23 it was a bit higher at the time. We started tearing apart the  
24 underlying data. We've got a group in the regulatory  
25 department that does load forecasting and they were working

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1 together with financial planning and analysis and taking a look  
2 at customer growth information, load growth information,  
3 revenue and margin. And as we analyzed that, we quickly  
4 realized that revenue growth is a misleading factor in our  
5 business because such a large part of it, the commodity prices  
6 fluctuate over time, up or down and -- but, we make no margin  
7 on it. So what we really need to do is focus on what the sales  
8 volumes are going to be. Because we have unit rates, it is the  
9 sales volumes that will drive what our margin growth will be  
10 and so we did some historic and projected analysis of that and  
11 determined that, on an average, we think we'll grow at 1.2% a  
12 year.

13 Q. And who supervised the determination of the 1.2 average  
14 annual growth rate?

15 A. There are many people involved in the discussion but I  
16 suppose I supervised it.

17 Q. And as you sit here today, do you still believe that to be  
18 a reasonable and accurate figure?

19 A. Yes, I do.

20 Q. Let's talk a bit about the overall expense increase. What  
21 can you tell us about the Debtor's projections in that regard?

22 A. We are projecting that our operating and maintenance  
23 expenses are going to increase an average of just under 1% per  
24 year. That includes the wage increases that are going to be,  
25 you know, 3% a year offset, partly, by productivity

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1 enhancements. On the overhead burden or G&A side of the  
2 business, we're going to look to reduce those over time by an  
3 average of 3.3% a year. And that's what's built into the 5-  
4 year plan. It does not factor in any incremental costs that  
5 may be associated with this Liberty consulting report that I  
6 mentioned as we don't know exactly what those costs are going  
7 to be yet or what rate treatment we might get. This plan  
8 assumes that there is no rate change over that 5-year horizon.

9 Q. Other key assumptions. What other things did the Debtor  
10 consider?

11 A. Significant ones were an increase in the funding  
12 requirement for a pension fund in Montana. Ourselves, like  
13 many companies, as the market had turned down the last couple  
14 of years, we determined that we were underfunded. The future  
15 earnings projections that our actuaries do were coming down,  
16 were underfunded by more than 100 million. So we contributed  
17 \$10 million in cash in 2004 and we're projecting that we will  
18 contribute another, little over 19 million for the 2005 to 2008  
19 time period. And based on discussions with our actuaries, we  
20 think this is the funding level required to get fully funded  
21 over that time period. We also assumed that there would be no  
22 change to the QF contracts. They would continue as is. With  
23 respect to Colstrip, we have two issues here. One is the sale  
24 that's -- to PPL that's in dispute for the transmission related  
25 to units 1, 2 and 3. We assume for purposes of this plan that

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1 we were not able to complete that sale, that we would keep  
2 those assets and continue to operate them. We also assumed  
3 that there'd be no changes in our leasehold interests for  
4 Colstrip unit 4. We believe we're going to see an improvement  
5 in working capital. In fact, we have seen that improvement.  
6 As we exit, we think we're going to need 35 million in cash in  
7 the bank, cash working capital, which will allow us to,  
8 hopefully, normalize trade terms with our energy suppliers.

9 Q. Why does the Debtor need 35 million in working capital?

10 A. When -- on our energy supply contracts, if we are  
11 investment grade, they can, but don't have to, traditionally  
12 they would extend to us normal credit terms allowing us to pay  
13 some time following receipt of the energy. If we are not  
14 investment grade, they have a right to demand cash deposits,  
15 pre-payments or other collateral against -- to secure those  
16 agreements. We've been able, notwithstanding that we're not  
17 investment grade, to work on more reasonable credit terms  
18 provided that we have enough cash in the bank. So they look at  
19 cash in the revolver of liquidity, but there's still an element  
20 of cash required to satisfy the suppliers that we can pay our  
21 obligations when they come due. And so from my perspective as  
22 Chief Operating Officer and responsible for energy procurement,  
23 I don't believe we can live with anything less than that  
24 because that's what's it's going to take to get normal trade  
25 terms with these energy suppliers.

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1 Q. So it's your business judgment that that's the appropriate  
2 number?

3 A. Yes.

4 Q. Do any of the regulators -- have any of the regulators  
5 weighed in on the Debtor's need for working capital?

6 A. The Montana Commission and Consumer Council in the  
7 discussions we had leading to the stipulation made it clear  
8 that they wanted adequate liquidity. There's a minimum showing  
9 required under that stipulation; I think it's 100 million of  
10 cash and available credit. But they made it clear that they,  
11 too, view a certain amount of cash in the bank is necessary and  
12 helpful.

13 Q. So it's the Debtor's position that any lower number would  
14 not be sufficient?

15 A. Yes.

16 Q. A few more questions. With regard to the sales of various  
17 assets, let me ask you, has the Debtor received, as of today,  
18 any payments or proceeds from Cornerstone?

19 A. No.

20 Q. Do you -- does the -- when does the Debtor expect to  
21 receive anything from Cornerstone?

22 A. I do not know the answer to that question.

23 Q. But you have not received any proceeds to date?

24 A. No.

25 Q. What about the status of the sale of MFN?

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1 A. We continue to negotiate with interested parties but we  
2 have not completed that sale and have not received any cash for  
3 that either.

4 Q. Okay. I understand that there's -- the Debtor has  
5 expectation of receiving some money from Expanet. Has the  
6 Debtor received any money from Expanets, which is now Netexit?

7 A. We have not.

8 Q. With regard to Blue Dot, the same question.

9 A. We have not received any cash for that either.

10 Q. So would it be fair to say the Debtor has no cash on hand  
11 from recoveries from any of the foregoing?

12 A. That's correct.

13 Q. What are the risks of the Debtor's ability to implement the  
14 5-year plan?

15 A. Well, the major risks are going to be, again, whether we  
16 can recover all of our energy supply costs because they are a  
17 significant element to us, and we've had a regulatory history  
18 disallowing a portion of those. Since we have volumetric  
19 rates, we are affected greatly by the weather. So if there's  
20 variations from normal weather, that will affect us. Our plan  
21 assumes that there'll be normal weather. Inside the plan, I  
22 mentioned, for example, on operating and maintenance expenses,  
23 an average increase of less than 1% despite the fact that we're  
24 having wage increases above that. So there's execution risk of  
25 whether or not we're going to be able to manage all of our cost

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1 elements. And lastly, the Liberty report and our response to  
2 that. Having not yet determined what the final impact will be,  
3 we're going to have to figure out what activities could be  
4 funded and how -- what rate treatment they might receive.

5 Q. As the Chief Operating Officer, do you have an opinion as  
6 to whether or not the Debtor can achieve the 5-year plan?

7 A. I believe we can achieve the plan. I'm simply pointing out  
8 that there are management actions necessary to get there. But  
9 I do believe we can achieve this plan.

10 Q. If this plan is confirmed, do you believe that the Debtor  
11 can meet its debt obligations that will be incurred under the  
12 plan?

13 A. Yes.

14 Q. Do you believe that management has included all the  
15 material factors in the forecast?

16 A. Yes, I do.

17 Q. Did you, as the Chief Operating Officer, leave out any  
18 factor that would implicate Northwestern's ability to perform  
19 under the plan?

20 A. No.

21 Q. Did -- is -- can you tell us whether management proposed  
22 this plan in good faith?

23 A. Yes, we did.

24 Q. Okay. And do you believe that there is any distributable  
25 value to the equity holders?

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1 A. Unfortunately, no, I do not.

2 MS. DENNISTON: Your Honor, at this time, the Debtor  
3 has no more questions for Mr. Hanson.

4 THE COURT: Is there anybody who is a proponent of the  
5 plan who wishes to ask Mr. Hanson any questions? If not, are  
6 there any objectors who wish to question Mr. Hanson?

7 MR. HOUSTON: Yes, Your Honor. Joseph Houston here.

8 THE COURT: All right, Mr. Houston. Let's -- you can  
9 go next, but not --

10 MR. HOUSTON: Thank you.

11 THE COURT: -- not next, but after counsel for  
12 Carpathia --

13 MR. MORRIS: The equity holders.

14 THE COURT: The equity holders.

15 MR. MORRIS: John Morris again.

16 MR. HOUSTON: Thank you, Your Honor.

17 CROSS EXAMINATION

18 BY MR. MORRIS:

19 Q. Good afternoon, Mr. Hanson.

20 A. Good afternoon.

21 Q. These are some of the assumptions that are contained in  
22 your 5-year business plan, is that right?

23 A. That's correct.

24 Q. When you talk about the 5-year business plan, you're  
25 talking about, in fact, the projections, is that right?

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1 A. That is correct, yes.

2 Q. And one of the things that has been included in your  
3 projections is a liability, if you will, associated with the  
4 Montana pension funding. Is that right?

5 A. That's right.

6 Q. And that -- those amounts that relate to the Montana  
7 pension funding are the amounts that the company today believes  
8 will be necessary to satisfy its obligations over time. Is  
9 that right?

10 A. In conference with the actuarials that help us determine  
11 funding requirements, that is correct.

12 Q. And you've also assumed that the QFs remain unchanged. Is  
13 that right?

14 A. Yes.

15 Q. And when you say that the QFs remain unchanged for purposes  
16 of your projections, what you're really saying is that you have  
17 assumed both the revenues that will be derived from the QF  
18 energy as well as the cost that would be incurred in connection  
19 with the QF energy, is that correct?

20 A. You can conclude that. What I meant by that statement is  
21 that the QF contracts remain unchanged and we do not negotiate  
22 any modification to those contracts.

23 Q. Okay. But for purposes of the projections, all of the QF  
24 liability is already built in there. Is that correct?

25 A. No. No, no, no. The QF liability -- we have booked \$140

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1 million liability on a net present value basis on our balance  
2 sheet.

3 Q. I'm not asking --

4 A. And it kept --

5 Q. -- you -- I'm sorry to interrupt, but I'm not asking you  
6 about a balance sheet. I'm asking you about your forecast.  
7 Your forecast contained both projected revenue and projected  
8 cost. Is that right?

9 A. For those 5 years, that is correct.

10 Q. And that for those 5 years your projections take into  
11 account the cost and the liability, if you will, associated  
12 with the QF. Is that right?

13 A. The -- for that 5-year term, but these contracts run out as  
14 far as 2028.

15 Q. I'm just asking you about your projections, Sir. Do your  
16 projections take into account the QF liability?

17 A. For the 5-year term of it, it does.

18 Q. And you only have projections for 5 years, right?

19 A. That's right.

20 Q. Okay. And -- I'm not terribly familiar with this, but is  
21 YELP a QF?

22 A. YELP is Yellowstone Energy Limited Partnership. It's the  
23 name of the limited partnership that manages one that -- the QF  
24 is called Billings Generation Inc. or BGI.

25 Q. And did Northwestern recently enter into some type of

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1 settlement agreement with YELP?

2 A. We have a proposed settlement, but it did not receive  
3 approval from one of the major equity holders of BGI so it has  
4 not been completed.

5 Q. Do negotiations continue?

6 A. Yes.

7 Q. And what portion of the QF liability relates to YELP?

8 A. I don't know that -- of the 140 million, I don't know  
9 exactly what relates to BGI. The three largest constitute  
10 about 90% of that and BGI --

11 Q. And is YELP --

12 A. -- is the largest.

13 Q. YELP is one of the three largest?

14 A. Yes, it is.

15 Q. And will a resolution of the dispute with YELP result in a  
16 reduction of the QF liability that you've described?

17 A. If the proposed adjustment is approved, it would, yes.

18 Q. And by what magnitude?

19 A. We estimate \$17 million.

20 Q. Out of the 140?

21 A. That's correct.

22 Q. And that is the net present value over a 30-year period?

23 A. Or of the remaining --

24 Q. Of the QF liability?

25 A. -- life of the contract, yes.

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1 Q. And what portion of the QF liability, the \$140 million QF  
2 liability that you're talking about, is embedded in your  
3 projections over the next 5 years?

4 A. Don't have precise numbers, but it's going to be  
5 approximately 12 to \$15 million.

6 Q. If it's being present value -- withdrawn. Is the QF  
7 liability assumed to be static over time?

8 A. No, it's not.

9 Q. Okay. And can you tell me, is it assumed to be a greater  
10 liability in the early years or the later years?

11 A. It begins as it -- the difference between the revenues and  
12 the expenses are relatively small in the early years. It,  
13 beginning in about 2002, is about 2 million. Presently it's in  
14 the 4 to \$5 million range. It grows over time to the years  
15 2015 to 2020 when it approximates \$20 million and then begins  
16 to taper off as some of these contracts begin to terminate.

17 Q. I'm sorry. What did you say it was currently?

18 A. It's in -- on an annual basis, the -- it's approximately 4  
19 to \$5 million. I -- without having the schedule in front of me  
20 to look at I can't give you an exact number.

21 Q. Were you here for Mr. Austin's testimony this morning?

22 A. I was.

23 Q. Did you hear him describe that as a result of more  
24 communication, the sale of non-core assets, the recent  
25 settlement agreement with the MPSC, that, from his perspective,

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Hanson - Cross

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1 the company's relationship with the Montana regulators has gone  
2 from terrible to much better?

3 A. I recall him saying it has improved. I don't remember if  
4 he said it was much better.

5 Q. Do you believe that it's improved?

6 A. I believe it has improved some. I believe there are more  
7 challenges ahead.

8 Q. And the issues that Mr. Austin described, being the lack of  
9 communication, the foray into unprofitable, non-core  
10 businesses, those are issues, to the best of your  
11 understanding, that the Montana regulators expressed concern  
12 about, isn't that right?

13 A. Well, they have but they've -- there's more to it than that  
14 but.

15 Q. Those are the ones that Mr. Austin identified and he didn't  
16 identify any others. You're aware of that, right?

17 A. I --

18 Q. You sat here --

19 A. -- heard what Mr. Austin --

20 Q. -- for his testimony, right?

21 A. -- said, yes.

22 Q. And he's the Chief Restructuring Officer, is that right?

23 A. He is.

24 Q. And one of the goals that he set out before you put this  
25 company into bankruptcy was to improve the relationship with

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1 the regulators. Isn't that right?

2 A. Yes.

3 Q. And he's overseeing this restructuring and he's the one  
4 who's responsible for making sure the goals of the bankruptcy  
5 are met, isn't that right?

6 A. He is responsible for the restructuring of the company.  
7 I'm responsible for the regulatory aspects of it.

8 Q. This is the summary of the stipulation with the MPSC, is  
9 that right? We're looking at slide 43.

10 A. This is what I provided as the high points, yes.

11 Q. Okay. Now, all of these items on here, the four items on  
12 here that you describe as the high points, those are all things  
13 that the MPSC wanted is that right?

14 A. Yes, I believe they did.

15 Q. They're all things that restrict Northwestern in certain  
16 ways, isn't that right?

17 A. I think that's fair.

18 Q. And, in fact, the first three of them all relate to this  
19 issue of the unprofitable foray into non-core businesses, isn't  
20 that right?

21 A. Yes.

22 Q. Can you tell me, Sir, before Northwestern signed this  
23 stipulation, did it review it carefully?

24 A. Certainly.

25 Q. Did it negotiate with the MPSC?

Hanson - Cross

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1 A. Yes.

2 Q. If you put up a slide for the Court that listed the  
3 benefits to Northwestern, what would it say, 'cause we don't  
4 have that?

5 A. Well, I believe there -- at least some of the benefits are  
6 covered here as well. The rate stability between now and 2007  
7 I think is a benefit as well as an obligation under that  
8 stipulation. Since we've announced that it is our intent to  
9 focus on regulated utility operations going forward, ring  
10 fencing those operations from the immaterial non-regulated was  
11 not a great burden and could arguably be considered a benefit.

12 Q. These four items are things that the MPSC wanted and  
13 Northwestern agreed to, is that correct?

14 A. I don't think that you characterize the negotiations that  
15 they asked for and we conceded. I think that both parties  
16 agreed that this would be appropriate.

17 Q. Well, whose idea was it to ring fence, the MPSC's or  
18 Northwestern?

19 A. I think we both proposed ring fencing, that we had  
20 initially different methodologies for accomplishing that and  
21 what was negotiated was the fashion in which we would achieve  
22 that.

23 Q. Okay. How about the second bullet point? Is that  
24 Northwestern's idea or the MPSC's idea?

25 A. I would say that that was the MPSC and Consumer Council's

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1 proposal.

2 Q. And what about the third point?

3 A. This was actually something that we proposed to them --

4 Q. Okay.

5 A. -- and they agreed to.

6 Q. Are there any benefits to Northwestern in the stipulation  
7 with MPSC that are not listed on this chart?

8 A. There are certainly intangibles related to, as we said,  
9 resolving these issues.

10 Q. Were these the major issues confronting Northwestern's  
11 relationship with MPSC?

12 A. These were the major issues related to the concerns that  
13 they raised in this proceeding. We have other issues  
14 associated with energy supply, pursuit of property tax trackers  
15 and many other things, other tracking accounts and other  
16 routine filings that we do with the Commission that aren't  
17 related to this proceeding and are not covered by this  
18 stipulation.

19 Q. Okay, but the major issues that are related to this  
20 proceeding have now all been resolved, is that right?

21 A. Of these, yes.

22 Q. And one of the reasons -- one of the benefits to  
23 Northwestern from entering into this stipulation with the MPSC  
24 is that Northwestern expects that as a result its relationship  
25 with the MPSC will be improved, is that correct?

1 A. Major benefit to us was that they are no longer objecting  
2 to our plan and emergence from bankruptcy.

3 Q. And as a result of the stipulation and agreement where  
4 Northwestern and the MPSC were able to reach common ground,  
5 it's Northwestern's expectation that as result, its  
6 relationship with the MPSC will be improved, correct?

7 A. I would certainly hope so.

8 Q. Now you mentioned the Montana Consumer Council?

9 A. Yes.

10 Q. They're not a regulator, are they?

11 A. No.

12 Q. They have no ability to raise or decrease Northwestern's  
13 rates, do they?

14 A. They can petition the Commission to do that.

15 Q. They're an advocate, isn't that right?

16 A. They are an advocate, that's correct.

17 Q. And isn't it true that any regulated utility in the United  
18 States is gonna have an advocate arguing on behalf of  
19 consumers on the other side?

20 A. Not necessarily.

21 Q. Does Con Edison face an advocate group on the other side  
22 when it's negotiating with its regulatory authorities?

23 A. I don't know. There are many utilities that do. I could  
24 cite you some jurisdictions where there are not --

25 Q. Okay.

Hanson - Cross

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1 A. -- either statutory, or in this case, Constitutional  
2 interveners.

3 Q. Is it fair to say that based on your experience, most  
4 regulated utilities are gonna face an advocate on the other  
5 side?

6 A. True.

7 Q. That's fair, isn't it?

8 A. Yes.

9 Q. There's nothing unique to Northwestern about having to deal  
10 with somebody who is representing the interests of the rate  
11 payers, is there?

12 A. With respect to having someone advocating a different  
13 position, no. With respect to the history and -- of  
14 proceedings in Montana, I think it is different than many other  
15 jurisdictions.

16 Q. How many jurisdictions have you studied to measure the  
17 impact of a rate payer advocates group as compared to  
18 Northwestern's?

19 A. I have personally worked in four, and I review -- there's a  
20 number of entities that put out rating evaluations of  
21 regulatory agencies. Bank of America, for example, puts out  
22 one. Some of the debt and equity investment advisors do that  
23 and they summarize different approaches and the positions at  
24 various commissions.

25 Q. How many --

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1 A. I review them all.

2 Q. How many times has the Montana Public Service Commission  
3 lowered the rates that Northwestern can charge to its rate  
4 payers?

5 A. They have not lowered the rate since we acquired Montana  
6 Power Company.

7 Q. So notwithstanding this advocate group, the Montana  
8 Consumer Council, the rates haven't gone down a penny, is that  
9 right? Since Northwestern acquired Montana?

10 A. That is correct.

11 Q. And as a result of one of the provisions in the  
12 stipulation, I think you cite it as a benefit that rates aren't  
13 going to change for at least 3 years, is that right?

14 A. If you include 2004, that's correct.

15 Q. Three years from today, I think you testified that the rate  
16 -- any rate change wouldn't become effective until the year  
17 after September 2006, right?

18 A. I did not -- I don't believe I said a year after September  
19 2006. I did say sometime in 2007, following the review  
20 period --

21 Q. Okay.

22 A. -- for this case.

23 Q. Okay, but for 2½ to 3½ years then, rates are gonna remain  
24 unchanged, and that's a benefit to Northwestern, is that right?

25 A. Yes.

Hanson - Cross

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1 Q. And so, there's nothing the Montana Consumer Council can do  
2 to affect rates during that period of time, is that right?

3 A. Not our T&D rates; of course, commodity charge is a  
4 different question.

5 Q. Well, you did mention that one of the risks in your  
6 business plan is that the Montana Public Service Commission  
7 might not enable Northwestern to recover certain supply costs,  
8 is that right?

9 A. That's right.

10 Q. And since the time Northwestern acquired Montana Energy  
11 Company, they've disallowed, what, \$12 million in the  
12 aggregate?

13 A. Of natural gas costs, that's right.

14 Q. And out of the total revenue during the period of time  
15 since Northwestern acquired Montana, what is \$12 million amount  
16 to on a percentage basis?

17 A. We do a billion dollars of revenue, so on a revenue basis,  
18 it's not much. But if your net income is about -- in the \$60  
19 million range that falls straight to your net income, that's a  
20 large percentage.

21 Q. And that's 60 -- did you say 60 million net income a year?

22 A. Yeah, just a ballpark number.

23 Q. Okay. And so over 3 years, you would have had \$180 million  
24 in net income, on a ballpark basis?

25 A. If you assume the 60 million is, you know, average annual

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1 number, Sir.

2 Q. Okay, and so it's 12 over 180 is the totality of the  
3 recovery of supply costs that have been disallowed by Montana  
4 since 2002, is that right?

5 A. It is 12 million over a 2-year period, times 6 million per  
6 year over the 2 years that they have reviewed. They have not  
7 completed their review of future periods, so it's the 2002/2003  
8 timeframe.

9 Q. Okay. So they have been -- there's been no disallowance at  
10 all yet for 2004, is that right?

11 A. That's right.

12 Q. Okay. You talked about the weather as a risk in heating  
13 and projections. The weather is a risk that any of  
14 Northwestern's competitors are going to face, is that correct?

15 A. Yes.

16 Q. And is it fair to say that there's a 50/50 chance today  
17 that the weather will either have a positive impact or a  
18 negative impact on Northwestern?

19 A. Weather could be better or worse than projected.

20 Q. If you have hot summers and cold winters, that's gonna have  
21 a very positive affect on Northwestern, correct?

22 A. That's true.

23 Q. And if you have, I guess, cold summers and warm winters,  
24 that'll have a negative affect, right?

25 A. It does.

Hanson - Cross

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1 Q. And as you sit here today, you have no idea which of those  
2 is possible? Withdrawn. As you sit here today, you have no  
3 idea which of those possibilities is likely to occur, correct?

4 A. In projecting the future, we had to assume normal weather.

5 Q. Okay.

6 A. In 2004, we have had a warmer than normal winter, followed  
7 by a cooler than normal summer.

8 (Pause in proceedings)

9 Q. You included all material factors in the projections that  
10 you created?

11 A. I believe I did, yes.

12 Q. And you were aware at the time that you created the  
13 projections of the state of Northwestern's relationship with  
14 regulators, correct?

15 A. The projections are forecasts of revenues, margins,  
16 expenses. We did not adjust either expenses or margins due to  
17 regulatory issues pending. We did -- you know, we had the  
18 write off for the gas costs, we assumed going forward we would  
19 recoup our costs in full.

20 Q. And since the time the projections were created in  
21 December, there's actually been the positive developments vis-  
22 a-vis the regulators that we've talked about, right?

23 A. We completed a stipulation since then, yes.

24 Q. And while I appreciate that -- you know, let's talk about  
25 that for a second. While I appreciate that Northwestern has

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1 not yet closed on any of the transactions relating to its non-  
2 core assets, can you tell me whether or not the assets that you  
3 described -- whether it's Expanets or Blue Dot -- whether the  
4 company has any contracts right now for the sale of any of  
5 those assets?

6 A. My understanding that our interest in Expanets and Blue Dot  
7 have been sold net exit, or what we now call it is itself in  
8 bankruptcy and there're various claims and litigation pending  
9 and Blue Dot has a similar situation.

10 Q. So the sale of the assets is complete, it's just a matter  
11 of when and how the process gets resolved before --

12 A. Resolving claims and then determining, you know, the  
13 remaining amounts.

14 Q. Okay. And other than the Expanets and Blue Dot, what was  
15 the other non-core asset? What was the --

16 A. We had the Montana First megawatt project.

17 Q. And where does the sale of that stand for the potential  
18 seller?

19 A. We had a non-binding letter of intent signed by a party  
20 that the exclusivity period has concluded without reaching a  
21 definitive agreement, so we are back to negotiating with  
22 multiple parties for the sale of that --

23 Q. And --

24 A. There is no Sale Agreement currently in place.

25 Q. Any other non-core assets that are either under contract or



Hanson - Cross

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1 that Northwestern is actively marketing today?

2 A. We included the discussion of Cornerstone. Again, the  
3 company's interest in Cornerstone is -- been divested. There  
4 are claims by Cornerstone back against the company, and we're  
5 trying to resolve those is my understanding of that.

6 Q. So, negotiations continue?

7 A. I believe they do.

8 Q. What percentage of Northwestern's revenues are derived from  
9 its generation abilities?

10 A. Less than --

11 Q. It's power generation abilities?

12 A. Less than 5%.

13 Q. That's for revenue?

14 A. Revenue and gross margin.

15 Q. Okay. You talked about how revenue is not necessarily the  
16 best measure of Northwestern's financial condition but that you  
17 think volume is a better indicator, is that right?

18 A. What I said was revenue's not a good indicator. We focus  
19 on gross margin. Gross margin is driven by volume sales so  
20 long as you don't have a rate change.

21 Q. And volume is gonna be affected by population growth, is  
22 that right?

23 A. Yes, to the extent that drives additional consumption, yes.

24 Q. And consumption by existing rate payers can also drive  
25 volume up or down, is that right?

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1 A. That is correct.

2 Q. And so in assessing projected usage by existing rate  
3 customers is it fair to look at statistics such as unemployment  
4 statistics and personal income growth projections?

5 A. Those are considerations that are included in the  
6 econometric modeling tool we use.

7 Q. Okay. What other considerations did you use in assessing  
8 future volume growth?

9 A. Well, I couldn't list them all, but there's factors of the  
10 general economy, the economy in that area, population growth,  
11 consumption trends. You also look at, you know, specifically  
12 by class of customer whether any of the large industrials have  
13 curtailed operations or coming back on-line or expanding.  
14 They're all inputs into the evaluation of our projected growth.

15 MR. MORRIS: Your Honor, I have no further questions.  
16 Thank you.

17 THE COURT: All right. Anybody else?

18 MR. HOUSTON: Yes, Your Honor, Joe Houston here.

19 THE COURT: Okay, Mr. Houston.

20 MR. HOUSTON: Thank you, Your Honor.

21 CROSS EXAMINATION

22 BY MR. HOUSTON:

23 Q. Mr. Hanson, just one or two questions. Back in the  
24 beginning of your testimony you discussed the management of the  
25 reorganized Debtors, correct?

1 A. Yes.

2 Q. It's true, is it not, that of the Board of Directors, which  
3 has existed with the Debtor since the petition date, six out of  
4 seven are going to resign as of the effective date, correct?

5 A. I believe that's true. We will have a new board -- six new  
6 board members.

7 Q. How many people are on your current board?

8 A. Seven.

9 Q. So that means six out of seven will resign, right?

10 A. Yes.

11 Q. And the Unsecured Creditors Committee, I believe, gets to  
12 select six replacements for those who will resign, correct?

13 A. I believe they did, yes.

14 MR. HOUSTON: Thank you, I have no further questions,  
15 Your Honor.

16 THE COURT: Okay, thank you. Before we have -- let  
17 me just ask a couple of questions that might be relevant to  
18 your examination, too.

19 BY THE COURT:

20 Q. Mr. Hanson, you said in response to Mr. Morris' questions  
21 that there are a number of other challenges with the regulators  
22 that I think you said {quote}, "go deeper," {close quote}.  
23 Could you give me a sense of what those are?

24 A. Yes, certainly, Your Honor. Mainly I was addressing issues  
25 that are not resolved by the stipulation. The on-going

1 discussion with the commission over natural gas procurement is  
2 on appeal in State Court, we do not have rules in place for the  
3 procurement of gas. That's been a very contentious issue. We  
4 -- it remains to be seen whether the commission will be  
5 satisfied with our response to the Liberty audit, and actions  
6 that we take, and then I was thinking of basically two  
7 instances of public comment, one prior to our filing of our  
8 electric and natural gas tracker, annual tracker filings, those  
9 comments published in the paper by commission indicating that  
10 we might expect more of the same with respect to how they're  
11 going to view our gas and electric costs. That was of concern  
12 to me because we hadn't made the filings yet. And the other  
13 was the recent public statements that they're gonna take an  
14 active role in monitoring not only the management but ownership  
15 of the company and look to develop criteria by which they would  
16 judge potential owners. So the totality of those items just  
17 tells me that while it's certainly an improvement the  
18 stipulation would not resolve all of the issues, and there are  
19 more challenges ahead.

20 Q. Explain to me briefly the tracker issue, what that means.

21 A. I'm sorry, yes. When we file for our commodity costs we  
22 will have a true up of any over or under recovery of the  
23 previous year's cost plus our projection of the cost to be  
24 incurred over the future year, and that will be what we set the  
25 per unit rate to be, and then we will do a monthly adjustment

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1 on a 12-month rolling average, but we {quote}, "track" our  
2 actual costs against the recoveries. Again, volumes may be  
3 different than what were projected and things like that. So at  
4 the end of that period we will have a difference between our  
5 actual expenditures for the year and our recoveries for the  
6 year, and that difference, again, gets rolled into the next  
7 year. So, that's what we mean when we say tracking or tracker  
8 account. It's to assure that you recovery exactly your  
9 out-of-pocket cost, no more, no less.

10 Q. Now, the energy that you purchase from the QFs and others,  
11 is there some primary energy source, I mean, is it coal, is it  
12 oil, is it natural gas, is it nuclear, is it solar? What is  
13 it?

14 A. The -- well, they do vary, Your Honor. Of the three  
15 largest, since they're the primary dollars, the Billings  
16 Generation, Inc. is burning petroleum coke produced by the  
17 refineries in Billings. The one that we call Coal Strip Energy  
18 Limited Partnership is mining waste products at the coal strip  
19 mine, and the third largest is a hydroelectric damn, the broad  
20 water damn owned by the state of Montana.

21 Q. Now, am I correct that the theory here is that if, for  
22 example, the price of oil continues to go up and you have some  
23 petroleum-based energy that you're purchasing, that your actual  
24 cost through this commodity recovery and tracker system that  
25 you've described will be neutral to your revenue? Am I correct

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Hanson - Redirect

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1 about that?

2 A. That's the intent of a tracker in theory, yes.

3 Q. So that whether the price of oil goes up or down, or the  
4 price of natural gas goes up or down or whatever, theoretically  
5 it's not supposed to affect your bottom line?

6 A. That's right. We earn no profit but we shouldn't lose any  
7 money.

8 Q. The difficulty comes to the extent that what you're allowed  
9 from -- to recover from the Commission, if that's different  
10 from what your actual cost is, is where the crunch comes, and  
11 that's what you really can't forecast, is that correct?

12 A. That's right.

13 Q. All right.

14 THE COURT: Ms. Denniston, do you have any other --

15 MS. DENNISTON: Your Honor, I only have two brief  
16 questions.

17 REDIRECT EXAMINATION

18 BY MS. DENNISTON:

19 Q. Mr. Hanson, since the -- Northwestern acquired Montana  
20 Power, has there been a rate case?

21 A. No, there has not.

22 Q. Okay. With regard to the 6 million that you testified was  
23 left unreimbursed on the gas situation, can you tell us what  
24 affect that has on EBITDA?

25 A. Well, in the year that we had to write it off it was a \$6

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Bird - Direct

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1 million deduct or hit to EBITDA.

2 MS. DENNISTON: Thank you, Your Honor, I have no  
3 further questions.

4 THE COURT: All right, thank you, Mr. Hanson.

5 A. Thank you, Your Honor.

6 THE COURT: You may step down.

7 MR. AUSTIN:: Your Honor, our next witness will be  
8 Mr. Brian Bird. Prior to calling him can we take about a 10  
9 minute break?

10 THE COURT: Sure. Be back at 10 minutes after 3.

11 (Recess)

12 THE COURT: Please be seated.

13 MR. AUSTIN: Your Honor, the Debtor's ready to  
14 proceed. We'd like to call Mr. Brian Bird.

15 THE COURT: All right, Mr. Bird, come forward,  
16 please, to the witness stand to be sworn.

17 BRIAN BIRD, DEBTOR'S WITNESS, SWORN

18 DIRECT EXAMINATION

19 BY MR. AUSTIN:

20 Q. Would you please state your name for the record?

21 A. Brian Bird.

22 Q. And Mr. Bird, you're currently employed by Northwestern?

23 A. That's correct.

24 Q. And you're in the position of Chief Financial Officer,  
25 correct?

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Bird - Direct

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1 A. Correct.

2 Q. Been in that position since around December the 1st?

3 A. December 1st.

4 Q. Prior to that would you briefly describe your experience in  
5 the energy industry?

6 A. Sure. In the energy industry in 1997 I joined a company  
7 called NRG Energy as its Vice President and Treasurer, and I  
8 was there for five years. In '02 I became CFO -- left that  
9 company became CFO of Insight Energy, it's a Warbert Pinkus  
10 firm that was in the generation development area.

11 Q. And what did it do by way of generation development, buy  
12 generation assets?

13 A. We tried to buy generation assets.

14 Q. All right. And NRG, was that -- how would you describe  
15 what NRG did?

16 A. NRG Energy was an independent power producer. It ran power  
17 plants.

18 Q. Ran power plants and sold the power?

19 A. That's correct.

20 Q. And was NRG owned by another utility company?

21 A. It was indeed. It was owned by Excel Energy, which is an  
22 integrated utility in Minneapolis.

23 Q. What's your educational background?

24 A. I have an undergraduate degree and a double major in  
25 accounting and finance from the University of Wisconsin, Au

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Bird - Direct

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1 Claire. I have an MBA in finance from the University of  
2 Minnesota. I hold a CPA certificate.

3 Q. Once you arrived at Northwestern can you generally describe  
4 for the Court your involvement in the senior management  
5 organization.

6 A. I was a member of the senior management team and we met  
7 weekly to talk about various issues, and so dealt with the team  
8 on a, at least a weekly basis.

9 Q. And I believe you've been in the Courtroom when Mr. Hanson  
10 testified earlier, is that correct?

11 A. That's correct.

12 Q. And Mr. Hanson testified about who his direct reports were.  
13 Did you in your capacity as Chief Financial Officer have a  
14 number of people who were direct reports to you?

15 A. I do. I have five direct reports. I have the controller,  
16 Kevin Cleaver; I have the treasurer, gentleman named Paul  
17 Evans; the head of tax, Chris Bonds; head of financial planning  
18 and analysis, Mike Neaman; and the head of audit controls,  
19 George Boils.

20 Q. And can you describe from your perspective what are your  
21 primary duties and responsibilities as Chief Financial Officer  
22 of Northwestern?

23 A. Indeed. To actually lead all of those particular areas in  
24 terms of accounting and finance and help in terms of leading  
25 the organization from a finance perspective.

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Bird - Direct

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1 Q. Is one of your responsibilities development or otherwise  
2 refinement of the company's five-year business plan?

3 A. That is correct.

4 Q. And that includes a five-year business plan which is part  
5 of the Debtor's plan of reorganization?

6 A. That is correct.

7 Q. And you have reviewed that business plan, is that correct?

8 A. I have.

9 Q. Can you briefly describe from your perspective what you  
10 believe Northwestern's business is?

11 A. Northwestern is a T&D utility.

12 Q. What do you mean by T&D utility?

13 A. It's in the transmission and distribution business, both  
14 electric and gas.

15 Q. As opposed to power generation like NRG, for example?

16 A. Correct. Northwestern has just over 500 megawatts if you  
17 include its interest in Colstrip. That's 500 net megawatts.  
18 To me that's not a generation company.

19 Q. And what -- when you say 500 megawatts of generation, that  
20 includes Colstrip lease holdings?

21 A. That does indeed.

22 Q. If you subtract the Colstrip lease hold, do you recall what  
23 is the megawatt generation capacity?

24 A. Approximately 320 net megawatts in South Dakota.

25 Q. Any in Montana?

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Bird - Direct

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1 A. No, none other than the lease hold.

2 Q. And does Northwestern own any producing gas wells, natural  
3 gas wells?

4 A. No.

5 Q. So, for your gas supply, Northwestern's gas supply, you  
6 have to buy that on the open market?

7 A. That's correct.

8 Q. And would you -- I'm not sure I recall, did you testify  
9 about what is the amount of the company's business derived from  
10 transmission distribution?

11 A. At the utility level 95% of our business is from the  
12 transmission distribution business.

13 Q. And what is the level of Northwestern's revenue which is  
14 regulated?

15 A. 95% also at the consolidated level is regulated.

16 Q. Now, you've had discussions here for -- with some of the  
17 credit rating agencies, is that correct?

18 A. That is correct.

19 Q. Is one of those rating agencies Standard & Poors?

20 A. Correct.

21 Q. How does Standard & Poors classify Northwestern?

22 A. We are classified as a TD utility.

23 Q. What is your experience as a Chief Financial Officer having  
24 experience in the energy area on trading (indiscern.) of a  
25 transmission distribution company like Northwestern in

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1 comparison to a more integrated utility company?

2 MR. MORRIS: Your Honor, I object to the extent that  
3 this is really expert testimony. We've got expert witnesses  
4 who have been designated who are here to testify --

5 THE COURT: Let me hear -- I understand your  
6 objection. Let me hear the question again.

7 MR. MORRIS: Okay.

8 MR. AUSTIN: The question, Your Honor, is based on  
9 his experience and in his capacity as Chief Financial Officer  
10 of Northwestern is what are the trading multiples of a  
11 transmission distribution company like Northwestern in  
12 comparison to more integrated utility companies?

13 THE COURT: All right. I think the witness can  
14 answer that question.

15 A. In my experience a T&D utility would trade in the 7 to 8  
16 times multiple.

17 BY MR. AUSTIN:

18 Q. Is that a multiple that's lower or higher than an  
19 integrated utility company?

20 A. That would be lower than an integrated utility.

21 Q. Let's look at exhibit #114, Mr. Bird. Can you identify  
22 this exhibit please?

23 (Debtor's Exhibit-114 previously marked for  
24 identification)

25 A. That is our projected statement of operations that is

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1 included in the May 17th Disclosure Statement.

2 Q. All right. And I want to take you through two more  
3 exhibits, Exhibit-115 -- can you identify that exhibit?

4 (Debtor's Exhibit-115 previously marked for  
5 identification)

6 A. That is the projected statement of cash flows, also in the  
7 Disclosure Statement.

8 Q. And now let's look at Exhibit-116.

9 (Debtor's Exhibit-116 previously marked for  
10 identification)

11 A. Our projected balance sheets.

12 Q. And are these three exhibits, 114, 115, and 116 summations  
13 of the financial projections of the five-year business plan  
14 supporting Northwestern's proposed plan of reorganization?

15 A. That is correct.

16 Q. And what was your involvement in developing these -- this  
17 five-year business plan and these financial projections?

18 A. Well, I joined the company on December 1st, 2003, and I'm  
19 the 17th and 18th (inaudible). I had to present the business  
20 client to both our Board of Directors and to the Creditors  
21 Committee, so on day one I was deeply involved in understanding  
22 the business plan, and it followed through that up until today.

23 Q. And is it your understanding, is it your testimony the  
24 first time this business plan was actually presented to the  
25 Creditors Committee was in mid-December, 2003?

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1 A. That's correct.

2 Q. Since mid-December, 2003, can you identify any major areas  
3 of change in the business plan from that which is now presented  
4 on Exhibits-114 through 116?

5 A. Yeah, from the time of that Creditors Committee meeting to  
6 our first Disclosure Statement we adjusted EBITDA in 2004. We  
7 actually increased EBITDA in 2004. We initially had 19.2  
8 million across the board in terms of pension expense, and what  
9 we did there is we actually reduced the pension expense, one of  
10 the items we did, it was the major item, is reduce that in 2004  
11 which increased the EBITDA. We also adjusted slightly some  
12 other benefit costs in the '06 through '08 period, which again  
13 improved EBITDA for that time period. And then after that  
14 there were no material changes.

15 Q. Do you have a perspective of whether the numbers which are  
16 in the -- excuse me, in the current Disclosure Statement and  
17 that support the proposed plan of reorganization are good,  
18 solid numbers?

19 A. I do indeed believe they're good, solid numbers.

20 Q. From your perspective how reliable are those numbers?

21 A. I think they're very reliable.

22 Q. In comparison to earlier projections which you may have  
23 reviewed as Chief Financial Officer at Northwestern?

24 A. You know, when I came on board I understand that there were  
25 changes in the financial projections, but by the time I'd come

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1 on board most of those changes were made by early December,  
2 relatively close to these numbers here.

3 Q. Fine. Now, what's your perspective on how the company's  
4 financial reporting is today, say in contrast to -- even prior  
5 to your arrival as Chief Financial Officer?

6 A. Depends on how far you go back. I think financial  
7 reporting for the company, if you look at how D and T evaluates  
8 the financial reporting, we had a management letter from 2002  
9 that had, you know, approximately 65 management comments, three  
10 of which were material weaknesses. So, we were in a pretty bad  
11 shape from a financial reporting perspective. The following  
12 year's, 2003's management letter we had 19 comments. Now the  
13 fact that Expanets and Blue Dot were gone contributed to  
14 improvement there, but we continued to make vast improvements  
15 in our financial reporting at Northwestern. We brought on a  
16 controller with solid SEC reporting skills, Ken Cleaver, he's  
17 helped in that regard. Mike Neaman in the financial planning  
18 area also helps me in putting together monthly reporting which  
19 the company did a poor job in the past on. So, we've improved  
20 from that perspective.

21 Q. From your perspective, has management included all material  
22 factors in the development of the five-year business plan?

23 A. Yes, we've discussed that five-year business plan  
24 frequently, particularly before we brought it to the Creditors  
25 Committee.

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1 Q. And you know of no major items that have been deleted, left  
2 out of, not included in the business plan do you?

3 A. No.

4 Q. Let's go back to exhibit #114. In this exhibit I believe  
5 it demonstrates, or at least shows the gross margin line  
6 compounded average growth rate of approximately 1.2%?

7 A. Correct.

8 Q. Can you explain why the company's using only 1.2% growth  
9 rate as opposed to maybe something higher?

10 A. Yeah, when I came on board, obviously, it's one of the  
11 question I had too, try and understand the growth rate that was  
12 being used, and they considered a lot of factors, customer  
13 growth, population growth, those types of things, but the main  
14 driver in the gross margin of our business is through put in  
15 both decatherms in the gas business and megawatt hours in the  
16 energy business, the electric business. And so we felt that  
17 was the most reliable measure in terms of growth rate, and  
18 effectively how we got to 1.2% is we showed from historical  
19 standpoint a five-year period that the electric and gas the  
20 retail electric and gas the business grew at 1% and then the  
21 wholesale electric and our nonreg businesses grew about 2.5%,  
22 and on a weighted average basis we came up with 1% growth rate.  
23 Q. Was there any time prior to 2004 that the company saw a  
24 significant increase, higher than 1.2%, in for example its  
25 customer base?

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1 A. Yeah. There were spikes both up and down. I mean, from a  
2 customer perspective, customers were given choice earlier on.  
3 They were able to change providers of energy so we had a  
4 reduction in customers. A lot of those customers came back so  
5 we had a drop in customers then a large increase in customers.  
6 But on a static level if you looked over a five-year period  
7 that increase wasn't much different than what we're showing  
8 here.

9 Q. And was that increase in the customer growth was that  
10 primarily in the state of Montana?

11 A. Correct.

12 Q. When that -- was that associated with a customer that had  
13 gone to another supplier and then chose to come back to  
14 Northwestern as the default supplier --

15 A. As a default supplier.

16 Q. -- in Montana?

17 A. Correct.

18 Q. Under those circumstances, was there really any change --  
19 or what change can you describe to the company's actual earning  
20 capacity associated with that spike in the number of customers  
21 that came back on?

22 A. Well, the one thing about our business is -- our default  
23 supply business is comes in as a dollar revenue and is also a  
24 dollar of cost of goods sold. So, it has no impact on gross  
25 margin. In almost 50% of our revenues are from default

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1 supplies coming in as revenue and cost of goods sold and so  
2 there's no impact on gross margin from that perspective. It  
3 gets down to the through put again. What goes across our pipes  
4 and our wires.

5 Q. The point is, you were already through putting, if you  
6 will, energy. You just had a different meter that you were  
7 reading?

8 A. That's correct.

9 Q. From your perspective, would you characterize the 1.2%  
10 growth rate reasonable or unreasonable?

11 A. I think it's reasonable.

12 Q. You think there's any way that it really could be much  
13 higher than that?

14 A. No, in our service territory I do not believe it would be  
15 much higher than that.

16 Q. And what is it about your service territory that impacts  
17 that response?

18 A. It's a relatively low growth. Any growth that we have is  
19 mainly in the residential aspect. There's not a lot of new  
20 businesses going up in our service territory.

21 Q. But I thought that Northwestern services the state of South  
22 Dakota?

23 A. It does, but the two largest cities, and actually the two  
24 fastest growing cities we do not serve, that is Sioux Falls and  
25 Rapid City.

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